

**REPORT OF THE AUDIT OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 3, 2007 Through June 15, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 3, 2007 Through June 15, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Wayne County Sheriff for the period January 3, 2007 through June 15, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$480,046 for the districts for 2006 taxes, retaining commissions of \$19,822 to operate the Sheriff's office. The Sheriff distributed taxes of \$458,997 to the districts for 2006 Taxes.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gregory Rankin, Wayne County Judge/Executive

Honorable Charles L. Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the Wayne County Sheriff's Settlement - 2006 Taxes for the period January 3, 2007 through June 15, 2007. This tax settlement is the responsibility of the Wayne County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Wayne County Sheriff's taxes charged, credited, and paid for the period January 3, 2007 through June 15, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gregory Rankin, Wayne County Judge/Executive

Honorable Charles L. Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

February 7, 2008

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 3, 2007 Through June 15, 2007

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 59,151	\$ 82,871	\$ 206,278	\$ 70,105
Tangible Personal Property	3,877	4,129	5,892	4,680
Fire Protection	185			
Franchise Taxes	26,891	28,885	41,894	
Additional Billings	275	375	974	326
Oil and Gas Property Taxes	214	291	757	254
Limestone, Sand and Mineral Reserves	150	203	454	177
Penalties	4,176	5,777	14,076	4,933
Gross Chargeable to Sheriff	94,919	122,531	270,325	80,475
<u>Credits</u>				
Exonerations	126	175	431	149
Discounts	278	299	430	11
Delinquents:				
Real Estate	5,868	8,204	20,140	6,920
Tangible Personal Property	619	660	931	770
Franchise Taxes	11,483	12,454	18,256	
Total Credits	18,374	21,792	40,188	7,850
Taxes Collected	76,545	100,739	230,137	72,625
Less: Commissions *	3,253	4,276	9,206	3,087
Taxes Due	73,292	96,463	220,931	69,538
Taxes Paid	73,123	96,234	220,310	69,330
Refunds (Current and Prior Year)	169	229	621	208
Due Districts as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on \$ 247,839
4% on \$ 232,207

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT

June 15, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
June 15, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 3, 2007 through June 15, 2007.

Note 4. Interest Income

The Wayne County Sheriff earned \$135 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of February 7, 2008, the Sheriff owed \$3 in interest to the Wayne County School District and \$4 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Wayne County Sheriff collected \$23,517 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Wayne County Sheriff collected \$333 of advertising fees and \$3,010 of additional fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gregory Rankin, Wayne County Judge/Executive
Honorable Charles L. Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Wayne County Sheriff's Settlement - 2006 Taxes for the period January 3, 2007 through June 15, 2007, and have issued our report thereon dated February 7, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wayne County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wayne County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wayne County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following to be a material weakness:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Wayne County Sheriff's Settlement – 2006 Taxes for the period January 3, 2007 through June 15, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Wayne County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 7, 2008

COMMENTS AND RECOMMENDATIONS

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period
January 3, 2007 Through June 15, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

During our review of internal controls over receipts and disbursements we noted the following lack of segregation of duties. We consider this control deficiency to be a significant deficiency and material weakness in internal control over financial reporting.

- The Office Deputy opens the incoming mail, receives cash from customers, enters the receipts into the computer system, posts to the receipts ledger and also prepares the deposit.
- The Sheriff's bank has not been instructed not to cash checks payable to the Sheriff.
- The Office Deputy, who is in charge of purchasing and receiving functions, signs and issues all checks. It was noted that no co-signature is required; the Sheriff does not sign the checks.
- The Office Deputy prepares, signs, and mails disbursements, as well as prepares monthly bank reconciliations.
- The Sheriff does not approve journal entries that are not standard entries.

Compensating controls limit the severity of a control deficiency by mitigating the effects, however, they do not eliminate the control deficiency. No documented compensating controls were noted during our review of internal controls over receipts and disbursements. The Sheriff could offset the lack of adequate segregation of duties over receipts and disbursements by performing the following procedures:

- The Sheriff should have strong and direct supervision over receipts by recounting and depositing cash, performing surprise cash counts, agreeing monthly tax collection totals to the receipts ledger, and agreeing monthly tax reports to the receipts and disbursements ledgers. The Sheriff could document these steps by initialing deposit slips, daily tax collection reports, and monthly tax reports.
- The Sheriff should have strong and direct supervision over disbursements by requiring dual signatures on checks (with one being the Sheriff), examining tax distributions prepared by another employee, and by delivering tax distribution checks with a copy of monthly tax reports to taxing districts. The Sheriff could document his review of the tax distribution report by initialing the report.

Sheriff's Response: No response provided.

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 3, 2007 Through June 15, 2007
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems

During our review of internal controls over receipts and disbursements we noted the following control deficiency with regard to the Sheriff's computerized accounting software. We consider this control deficiency to be a significant deficiency in internal control over financial reporting.

- The Sheriff's office does not have a computer policy and procedures manual available to all computer operators.
- The Sheriff's office does not provide training for both general computer operations and software packages for new computer operators and no refresher courses are provided.
- Computer passwords are not changed at regular intervals.
- The modem is not logically turned off or physically disconnected when not in use, in order to prevent unauthorized access.
- The Sheriff's office does not have procedures in place in case of virus infection.

We recommend the Sheriff's office strengthen internal controls over computerized accounting systems by implementing procedures such as:

- Providing access to a computer policy and procedures manual for all computer operators.
- Offering training for both general computer operations and software packages.
- Changing passwords every 30 days, or at least every 60 days.
- Logically turning off or physically disconnecting computer modems when not in use to prevent unauthorized access.
- Developing procedures in case of virus infection, including daily back up and security access changes.

Sheriff's Response: No response provided.

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